

ITEM #33B
REINSURANCE ARRANGEMENTS

Checklist for Proportional Treaty Contract Clauses

CEDING COMPANY: _____
 REINSURER: _____
 TYPE: _____
 EFFECTIVE DATE: _____
 EXPIRATION DATE: _____

The following are standard clauses for proportional reinsurance contracts. However, additional clauses may be included, depending on the particular need or purpose of the reinsurance arrangement. The clauses do not necessarily need to be in the same order as presented in this checklist. The applicant should complete Column 1 only. **Columns 2 and 3 are for department use only**

		<i>(Department Use Only)</i>		
		<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>
		Contract	Compliance	
		References	Yes/No	Comments
1.	<u>Preamble</u> Identifies the type and names the parties in the contract and their Locations Note: Indicate affiliation and relationship of the parties by ownership.	_____	_____	_____
2.	<u>Commencement and Termination</u> Defines the normal term of the contract and cancellation circumstances. It also establishes the term, specifying the date and time of coverage and termination.	_____	_____	_____
3.	<u>Business Covered</u> Indicates the percentage cession. It also establishes the basis of the attachment and provides a concise description of the business covered. Note: The ceding company must retain at least 10% of the risks that it underwrites. 100% cession is not acceptable.	_____	_____	_____
4.	<u>Original Conditions</u> Establishes that liability is ceded to the reinsurer on exactly the same basis assumed by the ceding company.	_____	_____	_____
5.	<u>Premium and Commission</u> Defines that premium is to be ceded and the commission paid. Note: The department's policy regarding commission on affiliated transactions is "at cost reimbursement only."	_____	_____	_____

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

		<i>(Department Use Only)</i>		
		<u>Column 1</u> Contract References	<u>Column 2</u> Compliance Yes/No	<u>Column 3</u> Comments
6.	<u>Definitions</u> This clause makes it easy to locate the definitions in the contract.	_____	_____	_____
7.	<u>Territory</u> Establishes the geographical area within which risks must be located to be covered.	_____	_____	_____
8.	<u>Taxes</u> Clarifies which party is responsible for paying Federal Excise Taxes and Premium Taxes.	_____	_____	_____
9.	<u>Currency</u> Establishes the currency to be used and the basis for conversion to U.S. dollars, if necessary.	_____	_____	_____
10.	<u>Exclusions</u> Specifies what are NOT covered under the subject contract.	_____	_____	_____
11.	<u>Access to Records</u> Gives the reinsurer the contractual right to inspect all of the ceding Company's records that pertain to the coverage provided by the contract.	_____	_____	_____
12.	<u>Reports and Remittances</u> Provides for the accurate and timely reporting and payment of business ceded. A specific timing should be provided. Reporting and settlement should be made on a quarterly basis or earlier. If quarterly, reporting and settlement should be made within 45 days after the quarter.	_____	_____	_____
13.	<u>Cash Call</u> Enables the ceding company to obtain immediate funds from the reinsurer when it has to pay a large claim. Note: This is optional.	_____	_____	_____
14.	<u>Errors and Omissions</u> Provides coverage in spite of an error which is inadvertently made and corrected right away by the contracting parties.	_____	_____	_____
15.	<u>Offset</u> Allows the ceding company or the reinsurer to offset balances due from one party to the other.	_____	_____	_____
16.	<u>Arbitration</u> Provides for dispute settlement by arbitration rather than by civil action in a state or federal court. If present in the contract, a specific timing for the arbitration procedure should be provided.	_____	_____	_____

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

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	<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>
	Contract	Compliance	
	References	Yes/No	Comments
17. <u>Insolvency</u> Clarifies that the reinsurers are obligated to reimburse the ceding company without diminution, even though the ceding company may not be able to pay its claimants in full.	_____	_____	_____
18. <u>Unauthorized Reinsurance</u> Establishes the responsibility of non-admitted reinsurer(s) to provide acceptable securities to the ceding company in order for the company to qualify for reinsurance credit in the statement. Note: The Letter of Credit must meet the requirements of Bulletin 90-3 and the Trust Agreement must meet the requirements of the California Model Trust Agreement.	_____	_____	_____
19. <u>Service of Suit</u> Provides a legal remedy to collect sums due under the arrangement. Note: This is required if the reinsurer (alien insurer) is not admitted in the State of California.	_____	_____	_____
20. <u>Intermediary</u> Recognizes the intermediary, when one is used, and fixes the credit risk in the event of insolvency of the intermediary. This article should provide that <i>"Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company."</i> Note: Intermediary must meet the requirements of CIC Chapter 6.5.	_____	_____	_____

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Reviewed by:

Date Reviewed:
